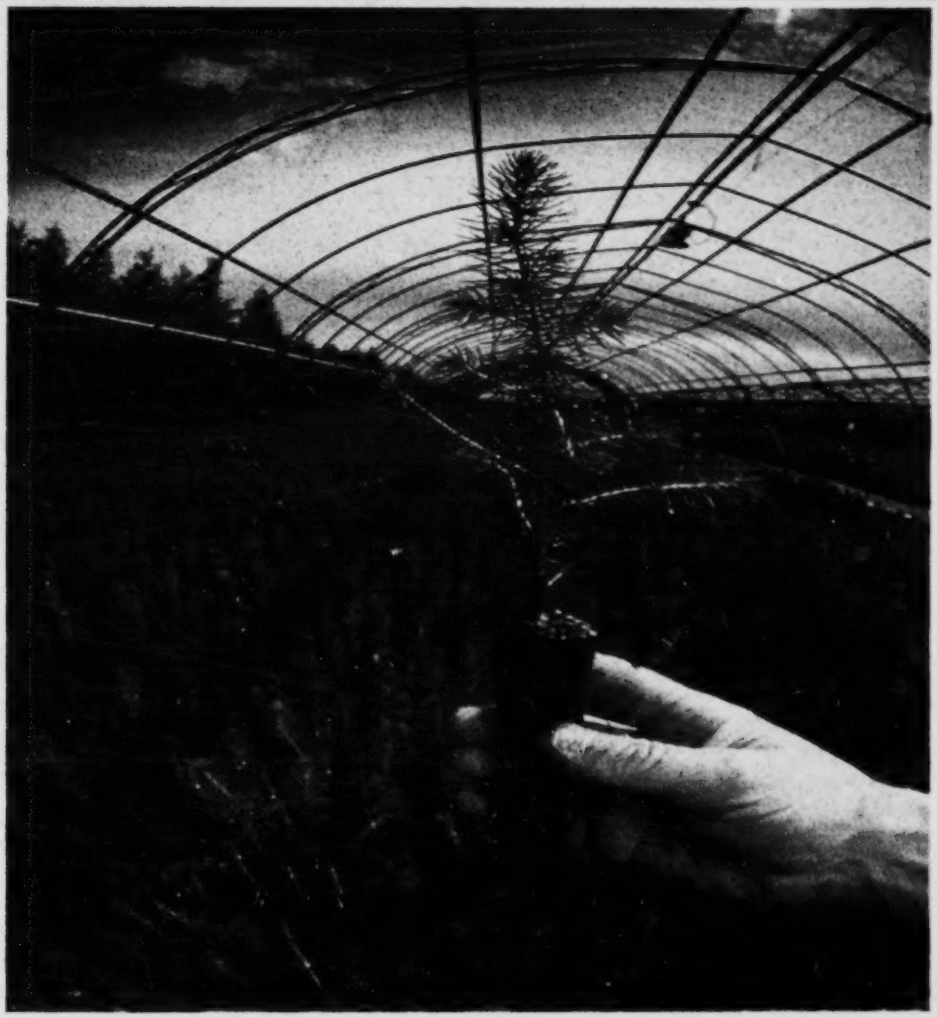
Pineland
Forest Nursery

Annual Report
2005-2006



Current crop seedlings are moved outside to be conditioned to the elements prior to shipping.

MINISTER OF CONSERVATION

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

His Honour the Honourable John Harvard, P.C., O.M.
Lieutenant-Governor of Manitoba
Room 235 Legislative Building
Winnipeg, Manitoba
R3C OV8

May It Please Your Honour:

I have the privilege of presenting the Annual Report of Manitoba, Pineland Forest Nursery for the fiscal year ending March 31, 2006.

Respectfully submitted,

Stan Struthers

Stan Struthers
Minister Responsible for
Pineland Forest Nursery

Manitoba

2007-04603/

Deputy Minister of
Conservation

Legislative Building
Winnipeg, Manitoba CANADA
R3C 0V8

Honourable Stan Struthers
Minister of Conservation
330 Legislative Building
Winnipeg, Manitoba
R3C OV8

Dear Minister:

I am pleased to submit for your approval the Annual Report for Pineland Forest Nursery for the year ending March 31, 2006.

Pineland Forest Nursery has completed eleven successful years as a Special Operating Agency. Pineland continues to compete for seedling and seed services contracts in the market place with more than half of its revenue derived from the private sector in Canada and the United States.

For the year ending March 31, 2006 Pineland Forest Nursery reports a loss of $171,000. This is partially the result of reduced forest harvesting and the subsequent reduction in tree planting which has occurred from the ongoing softwood lumber issue between Canada and the United States over the past several years. Since Pineland Forest Nursery's designation as a Special Operating Agency, total retained earnings are at $61,000. Pineland Forest Nursery continues to be one of the largest employers in the region with a total annual payroll of nearly $1.5 million.

The Advisory Board is proud to be associated with Pineland Forest Nursery and is confident that the Agency will continue to meet the challenges of the future.

Respectfully submitted,

Don Cook, Chairperson
Pineland Forest Nursery
Advisory Board

TABLE OF CONTENTS

	Page
Advisory Board Members & Agency Management	1
General Manager's Report	2
Background	3
Agency Structure	3
Mandate	4
Pineland Forest Nursery's Mission	4
Pineland Forest Nursery's Vision	4
Guiding Values	4
Products & Services	5
Markets	8
Critical Success Factors	10
Financial Results	12
Management Report	13
Financial Statements	14
Appendix A - Pineland Forest Nursery Organizational Chart	28
Appendix B - Sustainable Development	29

Advisory Board Members

Mr. Don Potter Deputy Minister Manitoba Conservation	Chair
Mr. Ken Holme Owner & Operator K.C.'s Outfitting	Member
Mr. Andre Chaput Representative	Member
Mr. Doug Hunt Forestry Superintendent Tolko Industries Ltd.	Member
Mr. John Dojack Director of Forestry Manitoba Conservation	Member
Ms. Shelly Barta Staff Representative Pineland Forest Nursery	Member
Mr. David Wotton Assistant Deputy Minister Manitoba Conservation	Member (ex officio)
Trevor Stanley General Manager Pineland Forest Nursery	Member (ex officio)

Agency Management

Trevor Stanley	General Manager
David Flight	Manager, Shipping, Seed Services, Poplar Program, Contracts
Richard Lepage	Manager, Greenhouse & Quality Assurance
Barb North	Manager, Operations, Tree Improvement, Security
David Turchyn	Manager, Maintenance Operations
Linda Rzyhak	Manager, Administration

Pineland
Forest Nursery

March 31, 2006 completes Pineland Forest Nursery's 11th year as a Special Operating Agency (SOA). Pineland continues to be the nursery of choice for many clients. A long term letter of intent to supply all seedling and seed services requirements was signed with a major client. Other clients have expressed interest in a similar arrangement.

The trade dispute with the US continues to have an impact on seedling requirements in Canada. The forest industry in Ontario is also being affected negatively due to poor markets and high Ontario hydro rates. In Manitoba, Tolko Industries Limited narrowly avoided a complete shut down. Tolko is one of Pineland's largest clients. The competition is fierce for the reduced requirements of seedlings and has kept seedling prices depressed. Pineland was able to maintain its current client base as well as add some new clients.

Midway through the past year the operations manager, Barbara North, resigned after over 20 years of exemplary service. Barbara had an integral part in Pineland's swift development over the past ten years. I enjoyed working with her over the years and I wish her well in her new ventures. Barbara's responsibilities have been distributed amongst the Senior Management Team with the majority of her responsibilities being covered by the Greenhouse Manager, Richard Lepage. At this time there are no plans to fill this position.

Energy costs are one of Pineland's major expenses, second only to staff salaries. Natural gas prices have increased by as much as 33% in the past year. Since implementation, the total estimated impact of our energy reduction strategy has been a savings of 2.8 million cubic metres of natural gas over the last five years, estimated cost of $911,000 based on today's rates.

Despite a forest industry in crises Pineland continued to maintain near capacity volumes. The trend for larger seedlings continues as foresters are forced to deal with more competitive sites, doing less intensive site preparation and using less herbicide. This has allowed us to maintain these volumes despite total seedling requirements decreasing.

During the year Pineland employed 101 people for a total of 42.98 staff years. Pineland continues to be a key business in the region and is one of the largest employers in the area with a payroll this year of $1.5 million.

Pineland Forest Nursery management and staff thank the members of the Advisory Board for their continued guidance and support. We would also like to wish Don Potter a happy and healthy retirement and thank him for his support and efforts as the Chairperson of the Advisory Board. We welcome Don Cook as the new Advisory Board Chair and we look forward to working with him. I would like to acknowledge the efforts of the Senior Management Team and the staff and I thank them for their support and patience through this time of change in the forest industry.

Trevor Stanley
General Manager

BACKGROUND

In 1953, 128 hectares of land was acquired by Manitoba, approximately 100 kilometres east of Winnipeg on the Trans Canada Highway near Hadashville, for the establishment of Pineland Forest Nursery. The nursery was to service all the requirements of the province of Manitoba's reforestation programs. An expansion of the nursery was accomplished later through the 1987 Canada/Manitoba Forestry Agreement. This included a tree improvement facility, additional greenhouses and a cold storage facility.

On April 1, 1995, Pineland Forest Nursery was designated as a Special Operating Agency (SOA). This has enabled the nursery to expand its client base from one client, the province of Manitoba, to the present client base, which includes other provincial governments and large forestry companies in Alberta, Saskatchewan, Manitoba, Ontario and the United States.

By growing its client base and increasing production since being designated a Special Operating Agency, Pineland Forest Nursery has become a key business in the community and one of the largest employers in the area with an annual payroll of $1.5 million.

AGENCY STRUCTURE

Pineland Forest Nursery is an organization within the departmental structure, and is accountable to the Assistant Deputy Minister, the Deputy Minister and the Minister of Conservation for operational and financial performance. The Agency operates outside the Consolidated Fund, under the Special Operating Agencies Financing Authority (SOAFA), which holds title to the Agency's assets, provides financing for operations, and is responsible for the Agency's liabilities.

Governance and accountability are supported by the Agency's compliance with its Operating Charter, Transfer Agreement, Management Agreement, General Manual of Administration policies (except where exempt as outlined in the Charter) and by The Special Operating Agencies Financing Authority Act.

The day-to-day operations of the Agency are the responsibility of the General Manager who plans and reports to the Agency's Advisory Board. The Advisory Board is chaired by the Deputy Minister of Conservation, with representation from both government and non-government bodies. The Assistant Deputy Minister of Conservation and the General Manager are ex officio members of the Board. Other members include two client representatives, two representatives from the private sector knowledgeable in private sector business, and one elected representative from Pineland's staff.

The role of the Advisory Board is to:

- offer advice on the Agency's direction and objectives, performance, business practices, marketing strategies, management and financial reporting requirements;

- review the Agency's Quarterly Financial Reports, Annual Report and Annual Business Plan;

- offer support regarding private, public and client sector issues and initiatives.

MANDATE

Pineland Forest Nursery was mandated through a Treasury Board approved Business Plan to:

- produce container seedlings for Manitoba reforestation programs and other clients across Canada and the United States;
- provide seed extraction, testing, cleaning, grading, storage and inventory services for all seed used in reforestation practices;
- provide support services for the provincial tree improvement program;
- maintain a stock identification system for the province, and provide professional information to field staff.

PINELAND FOREST NURSERY'S MISSION

To provide the highest quality integrated seedling growing and related services to forest sector clients in Canada and the United States.

PINELAND FOREST NURSERY'S VISION

To optimize the Forest Nursery utilizing high performing staff, innovative services and improved efficient technologies.

GUIDING VALUES

- To maintain a high quality of products and services offered through sound growing practices and quality assurance activities
- To operate in an efficient, fiscally responsible and business like manner
- To be reliable in providing service to clients
- To maintain integrity with clients
- To ensure facilities are efficient and continuously improved utilizing the best available technology
- To maintain a stable, knowledgeable and experienced work force
- To ensure key staff is kept current on scientific and technical developments in seedling production
- To ensure staff are valued and respected in the workplace
- To be pro-active in the development of new products and services
- To be re-active to clients' changing needs

PRODUCTS AND SERVICES

Seedling Production

Seedlings are grown in a variety of seedling container formats inside 54 (7.35 acres) climate controlled greenhouses, one Tree Improvement facility and one 10 bay gutter connected complex where growing conditions are meticulously monitored and optimized. The gutter connected complex and the different types of growing structures on site permits Pineland Forest Nursery to sow seedlings in any month of the year. This flexibility ensures that seedlings meet the precise specifications required for each of our client's planting sites. The Tree Improvement facility and the staff expertise allow us to produce high value research crops for our clients.

Three types of container stock are grown - current, overwinter and double flush. Current crop seedlings are sown in winter to be lifted, graded and packaged in the summer for immediate shipment. Overwintered crop seedlings are sown in spring to be lifted, graded and packaged in the late fall, then stored in one of three large freezers and shipped in the winter for snow cache or in the spring for immediate planting. Double flush crop seedlings are started as a current crop, put through artificial dormancy and grown a second time during the same year. The double flush crop will in effect, grow the equivalent of a two year old tree in just one year.

Quality Assurance

To ensure that our customers receive seedlings that are of the highest possible quality, all of the seedlings grown at Pineland are constantly evaluated and monitored. Container seedling lots are sampled and evaluated throughout the growing regime. Once the stock has hardened off seedling lots are also evaluated for bud development. Knowledge of the degree of bud initiation or development within a group of seedlings is very important, as bud formation marks the transition from shoot elongation to shoot dormancy, and is associated with the development of frost hardiness and increased resistance to stresses.

All seedlings are tested for frost hardiness prior to being lifted for frozen storage. Seedlings are subjected to freezer tests at -40°C. Only when they are hardy to this level are they considered ready for prolonged frozen storage.

All seedlings undergo quality monitoring while stored at Pineland. Seedlings are randomly selected, potted, and placed in a controlled greenhouse environment for twenty-one days. After the test growth period has ended, the trees are assessed for root regeneration and shoot growth. Monitoring stock allows us to ensure that our customers always receive vigorous seedlings that will survive and thrive in their final planting site.

A random sample from each load is taken prior to shipping and out-planted in a control area outdoors, where they are left to grow naturally Any problems our clients may experience in the field with a particular shipment can be compared to the planted stock for possible cause determination. At the end of the growing season out-planted trees are assessed for survival and growth, to give a further indication of the quality of the shipment.

Lifting, Grading, Storage and Delivery

While seedlings are being lifted in the packaging building they are graded according to the client's individual specifications which are posted in height and diameter. Graders also make assessments related to appropriate root and stem structure as well as foliage colour. Seedlings that do not meet specifications are discarded. Major upgrades have been undertaken in the packaging building over the last few years that have increased production and improved quality.

Current crop seedlings are lifted in the summer, then packaged in boxes and immediately loaded into refrigerated highway trailers, which are maintained at +5˚C to +8˚C for delivery to the planting site.

Overwinter crop seedlings are lifted in the fall, then packaged in boxes and stored frozen for delivery in the winter or spring. In total, Pineland's cold storage facilities can accommodate 20 million seedlings.

To most of our major customers, seedlings are delivered to the planting site by truck in our own refrigerated trailers. In remote planting areas that are only accessible by truck in winter using ice roads, seedlings are delivered and stored on-site in specially constructed snow caches, which keep the seedlings frozen and protected until spring planting.

Offsite Field Consultation

Our responsibility and commitment to producing superior trees does not end when the trees are shipped to the client. The experience and knowledge of Pineland's staff is utilized by our clients and their tree planting contractors as needed in order to maximize reforestation effectiveness.

Pineland's offsite consultation involves meeting with clients and assessing the sites they will be planting to determine, with the client what stock types would be suited for their sites. We also review previous planting sites to determine growth progression. If there are problems with any of the plantations we are best able to resolve them by working directly with the client in the field to determine the most likely cause of the problem. In addition to assessing crops and solving problems the field consultations afford us the opportunity to work with the clients in the development of new products. There is significant value in being involved with the client's specific needs first hand in order to determine how best to improve the products and services we provide.

Seed Services

Pineland offers two levels of seed cleaning, aerial (basic) grade and premium (greenhouse) grade. Aerial grade cleaning is almost exclusively jack pine. The seed is cleaned to a minimum of 96% purity and is used for broadcast sowing from an aircraft or direct seeding onto the site. Premium grade processing is required where seed of higher purity (>99%) is needed, generally for greenhouse use. As well, Pineland has the capability to do specialized, small scale cleaning of seed where very small lots (i.e. <1 litre) of cones are processed, such as those for genetic research trials where cone lots from individual trees are required.

Once processed, the seed is stored in large, airtight plastic containers, and can be safely kept in Pineland's cold storage facilities for more than ten years (if required) before use. To ensure quality is maintained, seed in cold storage is sampled periodically for purity, moisture content, weight and

viability.

Tree Improvement

For many years, Pineland Forest Nursery has provided tree improvement services to Manitoba Conservation, including seed extraction, growing family tests, grafting, accelerated growth of grafted stock in our greenhouses, planting and maintenance of clone banks and seed orchards. The Manitoba Forestry Branch has developed partnerships with the Tree Improvement Program and forest companies in Manitoba. This program has expanded to some of our clients in Northwestern Ontario. The Ontario government is funding a program that allows forestry companies to develop a tree improvement program. Because of the facilities and the expertise, Pineland Forest Nursery is better suited than most other nurseries to provide this service. Pineland Forest Nursery also provides growing, monitoring, irrigation and technical consultation services to the provincial Dutch Elm Disease research program.

Poplar Program

Following the federal government Feasibility Assessment of Aforestation for Carbon Sequestration Program (FAACS), the Forest 2020 program was initiated in the summer of 2003. As part of this initiative, hybrid poplar demonstration sites were established throughout the prairies. Growth rates and carbon sequestration volumes will be monitored over the life of the program. Pineland signed a contract with the Canadian Forest Service (CFS), through the Manitoba Forestry Association, to establish such a site at the nursery utilizing decommissioned bareroot fields. A local First Nations contractor planted the site in the spring of 2004. Pineland was contracted to transplant the surplus seedlings from this program into containers to be grown out and were planted in 2005. The experience and expertise gained through the establishment of hybrid poplar stool beds in 1997 will be of great benefit in establishing and developing this site. There may be potential to establish new stool beds as well as growing these seedlings in the greenhouse program.

Markets

Environmental Analysis

In the 1980's, seedling production was increasing across the country, with a tendency for artificial reforestation and governments paying for the majority of reforestation. In the 1990's, with governments focusing on reducing debt load, seedling production has decreased dramatically. Changes were made to include a focus on natural regeneration methods and a shift from government to industry being responsible for reforestation. Commitments to ecosystem-based forest management and sustainable forest management certification have elevated the importance of reliable production of high quality seedlings.

Pineland's ability to diversify and produce seedlings in a variety of tray types that are custom designed for specific uses has proven to be a major asset in the new era of reforestation. Seedling quality has been at the forefront in the last several years as a result of direct industry involvement in the reforestation efforts, where seedling performance is considered critical in total reforestation costs. Seed processing and seedling quality have become critical in the total cost of reforestation projects. Pineland' s ability to produce custom designed seedlings and deliver timely, cost effective seed services are a major asset in the new era of reforestation. Reliability, quality, competitive pricing and exceptional customer service are Pineland's strongest marketing advantages. Great depth of technical expertise and experience, along with the commitment of staff to serving their customers, has allowed Pineland to enjoy a superior reputation thus far.

The major trend in nursery production in Canada is predicted to be high quality seedlings with a high survival factor. Industry and government cannot afford to replant sites where seedlings have died due to planting lower spec trees or lower "quality" trees just to save money in the short term. Thus the "quality" of seedlings will drive Pineland's success and not just the cost.

Target Markets

The majority of revenue is generated through the production of seedlings. Other revenue is generated through the sale of services for seed extraction and cleaning, the delivery of seedlings, and other silvicultural related services.

Clients expect a high quality product for a reasonable price. As the cost for reforestation increases, the demand for seedlings with distinct quality characteristics has become more important for successful reforestation. Seedlings will have to be grown to match specific sites. This is to Pineland's advantage as the expertise in growing high quality site specific seedlings is available at Pineland. The focus of Pineland's clients will be toward quality seedlings at competitive prices, rather than marginal crops at very low prices.

Usual clients include, forest industry companies in Alberta, Saskatchewan, Manitoba, Ontario and the United States as well as Provincial and Federal governments as well as state counties. On a smaller scale, cottage associations, woodlot owners, Christmas tree growers, utility companies, mining companies and soil conservation authorities are clients either directly or indirectly.

Competitive Analysis

The ability to produce a wide variety of stock types in the greenhouses and hybrid poplar cuttings in the bareroot fields is one of Pineland's most important assets. Pineland is capable of servicing clients with high quality seedlings over a full range of morphological and physiological characteristics. The need for diversification is being addressed in increasing product lines to include mini plugs, large spruce and pine container stock, and hybrid poplar cuttings.

Pineland is able to produce seedlings in a variety of tray formats, which allows for more flexibility when clients request stock in one specific format or another. Different formats have been found to be better suited for certain stock types and for certain planting conditions. This flexibility allows us to produce what is best for the client and allows us to compete for contracts we may otherwise not be able to.

Having the capability to freeze and store all of our seedlings is a major advantage. With the large amount of money invested in the stock, clients minimize their risk and take advantage of our testing and delivery services when they can store their stock on site.

The nature of the tree seedling business requires highly labour intensive work programs be completed within relatively short periods of time. Labourers generally perform this type of work. As a result of Pineland' s workforce being subject to union salaries the rate for the majority of our labourers is generally higher than it' s competitors.

With the significant cost of wages to general labourers, increased efficiency will continue to be vital to the success of Pineland. Mechanization of seeding, growing, moving and packaging seedlings must be considered to keep Pineland competitive in the future.

Pineland is located on the Trans Canada Highway which allows easy access to all our suppliers and clients. Being centrally located allows us to offer seedling delivery to all of our major clients within twenty-four hours of request at very competitive freight rates. In order to compete on the open market, Pineland must maintain a reputation for reliability and integrity. Meeting production targets on a regular basis is a major consideration in awarding seedling contracts. Clients that request seedlings have significant amounts of money invested in preparation of planting sites and financial obligations involved in hiring tree planting contractors. The repercussions of not delivering the total seedlings requested are substantial in that contractual agreements must be broken and planting sites may require re-treatment.

As a part of our marketing strategy, we emphasize the quality assurance program to existing and potential clients. Many have seen the extent of our program and facilities through visitation of the nursery and are generally quite impressed with the scope of it. As part of several of our contracts (especially those in Ontario), third party quality testing of frozen stored seedlings is required. However, many of those clients have seen the results of our stock quality testing and have determined that the third party testing is not necessarily needed and accept our results.

CRITICAL SUCCESS FACTORS

Pineland identified four critical success factors with specific objectives for each, to ensure the long-term success of the Agency. Achievements during the 2005/06 fiscal year were as follows:

1. To run operations in a business-like manner and become financially self-sustaining:

1.1 Achieve financial targets as per pro-forma financial statements: (000's)

1.1.1 The net income target for 2005/06 was a loss of $196. Actual net income for the fiscal year was a loss of $171.

1.1.2 The capital expenditure projection for 2005/06 was $85.0. The actual capital expenditure for the fiscal year was $68.7.

1.2 1.2 Increase total revenue:

1.2.1 The total revenue for 2004/05 was $2,959. The total revenue for 2005/06 fiscal year was $2,824.

2. To maintain a reliable service that provides quality products and demonstrates integrity on a continuous basis.

2.1 Ensure that clients are satisfied with the services provided at Pineland and not more than one complaint is received.

2.1.1 There were no crop concerns during the year.

2.2 Ensure seedlings meet quality standards and targets.

2.2.1 The overwinter crop achieved 98.7% quality and +3.5% of target. The goal was 96% quality +/- 3% of target.

2.2.2 The current crop achieved 100% quality +5.3% of target. The goal was 95% quality, +/- 5% target.

2.3 Increase number of products available to clients.

2.3.1 Two new products that were added have gained acceptance with our clients.

2.4 Increase the number of cones processed to 4,000 hectolitres.

2.4.1 3,000 hectolitres of cones were processed.

3. Retain existing client base and their associated volumes.

3.1 Continue meeting contractual quantities and quality at competitive prices.

3.1.1 Quality and quantity volumes were achieved with all clients.

3.2 Add clients to the client base.

3.2.1 Three new clients were added to the client base.

3.3 Provide exposure for Pineland in the market place.

3.3.1 Staff attended six events that exposed Pineland, its products and services.

3.3.2 Pineland staff continued on-site field assessments with most of our major clients. One new client toured our facility.

3.3.3 Clients have access to quality control data on a regular basis via e-mail, fax, regular mail or personal visits either to our site or theirs.

3.3.4 One staff member sits on the Board of Directors of the Forest Renewal Co-op.

3.3.5 One staff member sits on the Board of Directors and is the President of the Manitoba Forestry Association.

3.3.6 One staff member is past chair of the Manitoba Section of the Canadian Institute of Forestry.

4. Ensure that the organization is adequately prepared to meet the challenges ahead.

4.1 Ensure key personnel have the skills required to perform required duties.

4.1.1 Staff are trained and motivated through regular staff meetings and attend training courses.

4.2 Develop marketing and after sales service.

4.2.1 One staff person is responsible for marketing and client relations, with full support from all other key staff.

4.3 Involve employees in developing Agency Policy.

4.3.1 The policy review committee reviews Pineland's policies and the policy manual is updated as required.

4.3.2 Senior Management Team is guided by the Strategic Plan, which they developed.

4.3.3 Sustainable Development - **Appendix B**.

FINANCIAL RESULTS

SUMMARY
(000'S)

	Actual 05/06	Budget	Budget Variance	Actual 04/05	Actual 2005 Variance
Total Revenue	**$2,824**	**$2,972**	**$(148)**	**$2,959**	**$(135)**
Operating Expenditures	2,635	2,817	(182)	2,742	(107)
Amortization	282	286	(4)	327	(45)
Interest Operating Loan	78	65	13	66	12
Interest Capital Loan	0	0	0	5	(5)
Total Expenditures	**$2,995**	**$3,168**	**$(173)**	**$3,140**	**$(145)**
Net Earnings	**$(171)**	**$(196)**	**$25**	**$(181)**	**$10**

Actual 2006 versus Budget

Total Revenues were $148 (4.9%) under budget. This is due substantially to the 2006 current crop and seed services (due mostly to the loss of our spent cones client) volumes being lower than expected. Also, the projected revenue under the tree improvement and poplar programs were less than expected. These shortfalls were offset somewhat by an increase in the 2006 overwinter crop.

Total expenditures were $173 (5.4%) under budget. This is substantially the result of several factors; lower current crop volumes as discussed above, above average temperatures in early winter 2005-2006 and continued efforts under the energy reduction strategy.

As a result, net earnings were $25 higher than anticipated.

Actual 2006 versus 2005

Total revenue was $135 (4.5%) less and total expenditures $145 (4.6%) less than the previous year. This is primarily due to the significant reduction in current crop volume.

Pineland
Forest Nursery

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of the management of Pineland Forest Nursery and have been prepared in accordance with generally accepted accounting principles. In management's opinion the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data up to May 26, 2006.

Management maintains internal controls to properly safeguard the assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions and that established policies and procedures are followed.

The responsibility of the Auditor is to express an independent opinion on whether the financial statements of Pineland Forest Nursery are fairly represented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

Trevor Stanley
General Manager

May 26, 2006

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Financial Statements

For the year ended March 31, 2006

BDO

BDO Dunwoody LLP/s.r.l.
Chartered Accountants
and Advisors

Comptables agrees
et conseillers

PINELAND FOREST NURSERY
An Agency of the Special Operating Agencies Financing Authority

Financial Statements
For the year ended March 31, 2006

Contents

Auditors' Report	**2**
Financial Statements	
Balance Sheet	**3**
Statement of Income	**4**
Statement of Retained Earnings	**5**
Statement of Cash Flows	**6**
Summary of Significant Accounting Policies	**7**
Notes to Financial Statements	**9**
Supplementary Information to the Financial Statements	
Schedule of Operating Expenses	**12**
Schedule of Public Sector Compensation Disclosure	**13**

BDO Dunwoody LLP/s.r.l.
Chartered Accountants and Advisors
Comptables agréés et conseillers

Winnipeg, Manitoba, Canada R3C 4E5
Telephone/Téléphone: (204) 956-7200
Fax/Télécopieur: (204) 926-7201
Toll free/Sans frais: 1-800-268-3337
www.bdo.ca

Auditors' Report

To The Special Operating Agencies Financing Authority:

We have audited the balance sheet of **PINELAND FOREST NURSERY**, An Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2006 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Nursery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Nursery as at March 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba
May 26, 2006

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Balance Sheet

(in thousands)

March 31	2006	2005
Assets		
Current Assets		
Accounts receivable (Note 2)	$ 339	$ 274
Unbilled revenue	287	331
Inventory	108	109
Prepaid expenses	48	49
	782	763
Receivable from the Province of Manitoba (Note 3)	187	187
Capital assets (Note 4)	1,876	2,113
	$ 2,845	$ 3,063
Liabilities and Equity		
Current Liabilities		
Working capital advances (Note 5)	$ 2,107	$ 2,113
Accounts payable and accrued liabilities	136	200
	2,243	2,313
Severance pay liability (Note 6)	185	162
	2,428	2,475
Contributed equity (Note 8)	356	356
Retained earnings (Page 5)	61	232
	417	588
	$ 2,845	$ 3,063

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Statement of Income

(in thousands)

For the year ended March 31	2006	2005
Revenue		
Private sector		
Overwinter	$ 1,028	$ 1,071
Current	395	530
Greenhouse poplar	1	12
Seed services	149	200
Tree improvement	6	30
Poplar program	-	5
Other	-	1
	1,579	1,849
Province of Manitoba		
Overwinter	1,155	1,026
Current	70	69
Seed services	20	15
	1,245	1,110
	2,824	2,959
Expenses		
Salaries and benefits	1,520	1,563
Operating expenses (Page 12)	1,115	1,179
Amortization - capital assets	282	327
Interest - operating loan	78	66
Interest - capital loan	-	5
	2,995	3,140
Net loss for the year (Page 5)	$ (171)	$ (181)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Statement of Retained Earnings

(in thousands)

For the year ended March 31	2006	2005
Retained earnings, beginning of year	**$ 232**	$ 413
Net loss for the year (Page 4)	**(171)**	(181)
Retained earnings, end of year (Page 3)	**$ 61**	$ 232

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

PINELAND FOREST NURSERY
An Agency of the Special Operating Agencies Financing Authority
Statement of Cash Flows
(In thousands)

For the year ended March 31	2006	2005
Cash Flows from Operating Activities		
Net loss for the year	**$ (171)**	$ (181)
Adjustment for		
Amortization - capital assets	**282**	327
	111	146
Changes in non-cash working capital		
Accounts receivable	**(65)**	57
Unbilled revenue	**44**	13
Inventory	**1**	11
Prepaid expenses	**1**	(4)
Accounts payable and accrued liabilities	**(64)**	22
	(83)	99
Severance pay liability	**23**	15
	51	260
Cash Flows from Investing Activities		
Acquisition of capital assets	**(45)**	(71)
Cash Flows from Financing Activities		
Repayment of long-term debt	**-**	(51)
Net increase in cash and cash equivalents	**6**	138
Cash and cash equivalents, beginning of year	**(2,113)**	(2,251)
Cash and cash equivalents, end of year	**$ (2,107)**	$ (2,113)
Supplementary Information		
Interest paid	**$ 78**	$ 71

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Summary of Significant Accounting Policies

(in thousands)

March 31, 2006

Basis of Reporting

The financial statements of the Nursery have been prepared in accordance with Canadian generally accepted accounting principles.

Inventory

Supplies inventory is valued at the lower of cost and replacement cost.

Capital Assets

Capital assets are recorded at cost and amortized on a declining balance basis at the following rates:

Greenhouses, coldframes, freezers, holding area, minor service buildings, major pump-house, major service buildings, propane conversion	10%
Equipment	20% - 30%

Amortization on current year additions is pro-rated based on the length of time in use in the current year.

Accrued Vacation Entitlement

The Nursery follows the policy of the Department of Finance to recognize the vacation entitlement liability accumulated to March 31, 1995. The liability at this date is offset by a receivable from the Province and was $99 as at March 31, 1995. Any subsequent changes to the entitlement are reflected as a current year expense to the Nursery. As at March 31, 2006 there was a decrease to the entitlement in the amount of $5. The accrued vacation entitlement was $111 as of March 31, 2006 (2005 - $116) and is included in accounts payable and accrued liabilities.

Revenue Recognition

Revenues are recognized on a percentage of completion basis. Any excess of revenue recorded on a percentage of completion basis over amounts billed is recorded as unbilled revenue.

Financial Instruments

The Nursery's financial instruments consist of accounts receivable, unbilled revenue, working capital advances, accounts payable and accrued liabilities and severance pay liability. Unless otherwise noted, it is management's opinion that the Nursery is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

It is management's opinion that the fair value of these financial instruments approximates their carrying value.

March 31, 2006

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

1. Nature of Organization

In 1953, Pineland Provincial Forestry Nursery was established to meet all the nursery stock requirements of the Province at one location. Prior to 1953 there were several small nurseries located throughout the Province. Effective April 1, 1995, Pineland Forest Nursery was designated as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. c.S185) and operates under a charter approved by the Lieutenant Governor in Council.

A management agreement between the Financing Authority and the Minister of Conservation assigns responsibility to the Nursery to manage and account for the agency related assets and operations on behalf of the Financing Authority. Pineland Forest Nursery continues to be part of Manitoba Conservation under the general direction of the Assistant Deputy Minisfer of Conservation Programs and ultimately the policy direction of the Deputy Minister and the Minister. Pineland Forest Nursery remains bound by relevant legislation and regulations. It is also bound by administrative policy, except where specific exemptions have been provided for in its charter in order to meet business objectives.

Pineland Forest Nursery is economically dependent on the Province of Manitoba, because it derives a significant portion of its revenue from the Province and all of its financing requirements through the Financing Authority.

2. Accounts Receivable

	2006	2005
Trade Receivables		
Province of Manitoba	$ 94	$ 90
Other	288	227
	382	317
Allowance for doubtful accounts	(43)	(43)
	$ 339	$ 274

3. Receivable from the Province of Manitoba

The receivable from the Province of Manitoba is made up of vacation entitlements earned by the employees of the Nursery prior to creation of the Special Operating Agency on April 1, 1995 and for severance pay benefits earned prior to April 1, 1998. This receivable, or portion thereof, for the Nursery, will be collected in the event there is a cash shortfall. However, this is only likely to happen on dissolution of the Nursery. The balance is comprised of:

	2006	2005
Vacation entitlements	$ 99	$ 99
Severance pay benefits	88	88
	$ 187	$ 187

4. Capital Assets

	2006		2005	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	$ 3,930	$ 2,435	$ 3,919	$ 2,269
Equipment	1,650	1,269	1,616	1,153
	$ 5,580	$ 3,704	$ 5,535	$ 3,422
Cost less accumulated amortization		$ 1,876		$ 2,113

5. Working Capital Advances

The Financing Authority has provided the Nursery with an authorized line of working capital of $3,000 of which $2,107 was advanced at March 31, 2006 (2005 - $2,113).

6. Severance Pay Liability

Effective April 1, 1998, the Nursery began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an accrual basis. The Agency's actuarially determined net liability for accounting purposes as at March 31, 2006 was $185 as at March 31, 2006 (2005 - $162). Commencing in the 2006 fiscal year the actuarial loss of $58 is being amortized over the 15 year expected average remaining service life of the employee group.

7. Pension Benefits

Employees of the Nursery are eligible for pension benefits in accordance with the provisions of The Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including Pineland Forest Nursery, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Nursery transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2006 was $62 (2005 - $60). Under this agreement, the Nursery has no further pension liability.

8. Contributed Equity

The Special Operating Agencies Financing Authority and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from the Province to the Financing Authority of inventory and capital assets valued at $712 required for the continuing operations of Pineland Forest Nursery as at March 31, 1995. The Nursery was responsible to repay the Special Operating Agencies Financing Authority the debt portion, in the amount of $356 (being half of the value of the assets) and to record the remainder as the Province's equity in the Financing Authority as related to the Nursery's operations. The debt portion was fully repaid during the 2005 fiscal year.

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Schedule of Operating Expenses

(in thousands)

For the year ended March 31	2006	2005
Supplies	**$ 309**	$ 310
Natural gas and hydro	**370**	356
Repairs and maintenance	**131**	216
Property taxes and insurance	**102**	98
Office	**66**	72
Departmental services and professional fees	**51**	46
Freight	**50**	45
Marketing	**14**	12
Travel	**22**	24
	$ 1,115	$ 1,179

PINELAND FOREST NURSERY

An Agency of the Special Operating Agencies Financing Authority

Schedule of Public Sector Compensation Disclosure

(in thousands)

For the year ended March 31 **2006**

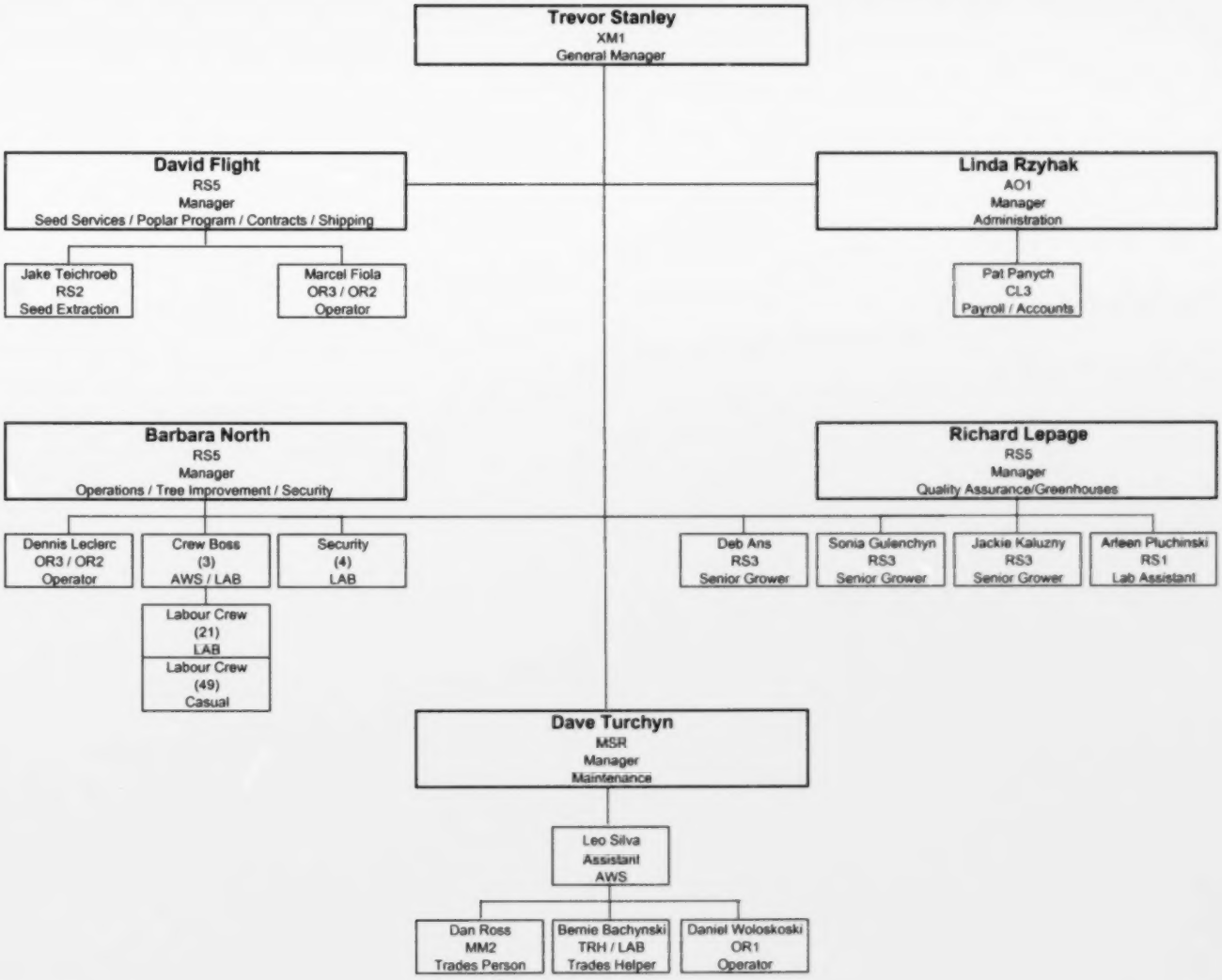
Pursuant to the disclosure required by The Public Sector Compensation Disclosure Act, no remuneration was paid to Advisory Board members. During the fiscal year ended March 31, 2006, the following employees received compensation of $50 or more:

Employee	Title	Compensation
Trevor Stanley	General Manager	$ 78
David Flight	Manager	57
Richard Lepage	Manager	52
David Turchyn	Manager	53

Appendix A

PINELAND FOREST NURSERY

ORGANIZATION CHART



Appendix "B"

SUSTAINABLE DEVELOPMENT

Education:

All managers and other persons responsible for purchasing goods and services on behalf of Pineland Forest Nursery have been made aware of the Government of Manitoba's policy toward sustainable procurement and to make allowances and decisions based on the policy wherever and whenever possible and practical. Beyond purchases of goods and services, an effort is being made to reduce waste and increase efficiencies in all facets of the operation.

Resource Conservation:

- Utilization of recycled paper for virtually all purposes;
- Wherever and whenever possible, materials are purchased through Material Distribution Agency;
- Use of recycled motor oils wherever possible;
- Recapturing of used oil and shipping for re-fining;
- Sorting of waste materials and transportation to recycling depot;
- Composting of biological waste materials (cull seedling, etc.);
- Re-use of used plastic greenhouse coverings for various purposes such as protection of equipment from weather; also allow local public to utilize old greenhouse coverings;

Pollution Prevention and Human Health Protection:

- Conversion of seedling cold storage facility to newer non-ozone depleting refrigerants;
- Use of environmentally friendly industrial supplies such as those available through Share Corporation (natural-based biodegradable products);
- Minimize use of pesticides wherever possible;
- Purchase of new container washing machine which recycles water and utilizes environmentally friendly sanitizing agent (hydrogen peroxide) and lessens need to use pesticides in greenhouses.

Reduction of Fossil Fuel Emissions:

- Dedicated effort to reduce energy consumption wherever possible in greenhouses (and other facilities); example, insulation program for coldframes, retro-fitting greenhouses with more energy efficient walls, manipulation of sowing dates and temperature regimes to minimize gas consumption, use of energy curtains in some facilities;
- Annual consumption of natural gas has dropped by 25 to 52% in the last five years compared to the year prior to implementing the energy reduction strategy. Since implementation, the total estimated impact of our energy reduction strategy has been a savings of 2.8 million cubic metres of natural gas over the last five years, estimated cost of $911,000 based on current rates
- Utilization of small motorized equipment to travel around nursery site instead of using trucks.

Pineland continues to explore ways to continue to reduce consumption of natural gas and hydro. It is also worth noting that Pineland Nursery's primary purpose is to produce seedlings for reforestation, which contributes to sustainable development. We also play an active role on committees, which promote afforestation of non-forested lands as well as providing seedlings through the Manitoba Forestry Association to landowners to plant trees for woodlots and Christmas tree plantations. Planting of seedlings on previously non-forested land adds a long-term sink for carbon sequestration.